India's gold market update
Record high prices, accompanied by investment interest

WORLD GOLD COUNCIL

Highlights

- Domestic prices track international highs, but demand pressure results in deeper discounts from local dealers
- Price surge dims jewellery demand, while investment interest lingers
- Gold ETFs see unprecedented inflows in January
- The Reserve Bank of India (RBI) resumed its gold buying in January, after a December pause, adding 2.8t to its reserves
- Gold imports hit their six-month low in January
- The Union Budget maintained the import duty on gold at 6%, while reducing the customs tariff on gold jewellery from 25% to 20%.

Looking ahead

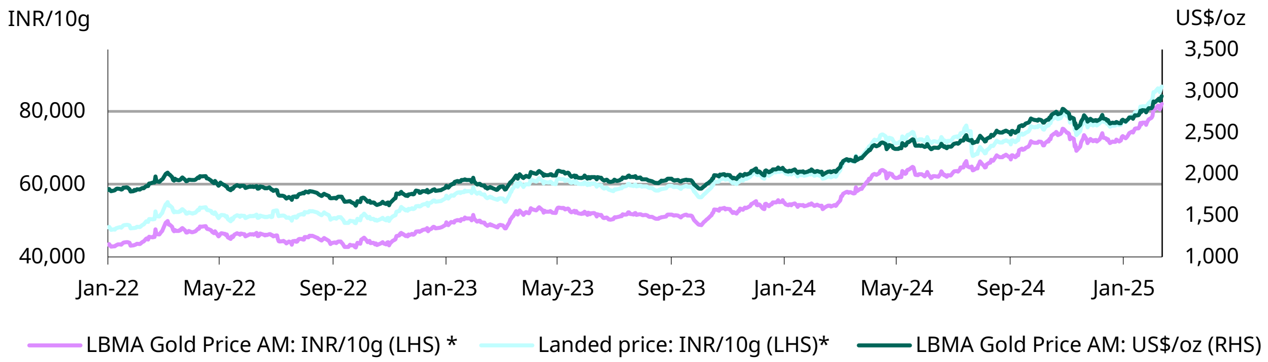
- Gold investment interest is expected to remain strong, even as jewellery demand faces pressure from record- high prices. The financial year-end dynamics, which include statutory payments and tax-saving investments, may curtail discretionary spending, further weighing down demand. However, price stability could be a mitigating factor for jewellery demand, which could see an improvement in the new fiscal year starting in April.

Gold achieves a new peak

Heading into 2025, gold has not only reversed the price moderation seen in November-December (a decline of 6%), but it has also repeatedly hit new -record highs. So far in 2025,[1] the LBMA gold price AM in USD has surged by US$286/oz or 10% to US$2,938/oz. Domestic prices have been rising in parallel with international prices, rising by 14% to a record INR86,831/10g,[2] with the higher gains attributed to the weakness in the INR against the USD (1.1% depreciation y-t-d). Our analysis indicates that the upward climb in gold prices can be attributed to a combination of geopolitical risks, growing concerns about inflation, and increased investment flows.

Chart 1: Gold breaks previous records

LBMA Price AM and domestic landed price by month, US$ and INR*



*Based on the LBMA Gold Price AM in USD expressed in local currency as of 14 February 2025. Landed price includes import tariff and tax.
Source: Bloomberg, World Gold Council.

1. As of 14 February, 2025.
2. Based on the landed price of gold (international prices adjusted for import taxes and exchange rate) as of 14 February, 2025.

Union Budget 2025-26: key highlights pertaining to gold

- One of the key takeaways from the Union budget presented on 1 February for gold is that the import duty hasn't been changed. In the run-up to the budget there were worries that the government might hike the duty due to the rise in gold imports after it reduced the duty by 9% back in July 2024
- On the other hand, the government cut the customs tariff on gold jewellery from 25% to 20%. This is likely done as part of the overall rationalisation of tariffs across commodities. However, since jewellery imports aren't that significant and are limited to high-end jewellery (and of low caratage), this cut in duty is unlikely to have much impact on domestic jewellery production
- It was also announced that new tariff lines will be introduced under the HSN codes[3] for precious metal from 1 May to distinguish imports of precious metals in various forms. The new tariff lines will differentiate gold imports in bar form from other types. This is done to address the disruptions caused by imports of gold in forms such as platinum alloy and gold paste. From May, the tariff rates can differ based on the new classification
- The government has also decided not to issue any sovereign gold bonds as part of its market borrowing programme. This could work in favour of gold ETFs, as investors looking for gold-related financial products may turn to ETFs instead.

Price surge takes shine out of jewellery demand, maintains investment interest

The rally in gold prices to repeated new all-time highs since the start of the year has weighed heavily on the retail demand for gold jewellery. Uncertainty about announcements in the Union Budget also influenced buying activity.

Anecdotal reports indicate that demand dropped sharply in January and the weakness persisted into February, despite the end of the inauspicious period in the Hindu calendar (15 Dec - 15 Jan) and the usual-post Union Budget pick-up in demand. Wedding-related purchases too have been subdued, suggesting that many consumers had front loaded their purchases when prices dipped in November. Rather than making fresh purchases, many buyers are opting to exchange old gold for new jewellery. Additionally, as gold prices surged past previous thresholds, many consumers are also taking the opportunity to sell old gold and lock in profits.

This slowdown in jewellery demand has left retailers reluctant to restock, as they face challenges in meeting payment terms with manufacturers. This has created a liquidity crunch within the industry. The subdued demand environment was reflected in the widening spread between domestic and international prices. Since December, domestic gold prices[4] have been trading at a discount to international prices, with the gap widening from an average US$3/oz in December to US$23/oz.[5]

Notwithstanding the depressed jewellery demand, investment demand interest (for bars and coins) has stayed the course with investors anticipating further price increases.

Record inflows into gold ETFs

2025 began with strong interest in Indian gold ETFs, marked by unprecedented inflows in January. According to the Association of Mutual Funds in India (AMFI), gold ETFs recorded net inflows of INR37.5bn(~US$435mn) in January, significantly higher than the average inflows of INR9.4bn(~US$112mn) over the previous 12 months. The cumulative assets under management (AUM) of gold ETFs grew to INR51.8bn(~US$6bn), an 15% m/m increase and 4.6t were added to the overall holdings, taking the collective holdings to 62.4t. These figures are close to our initial estimates, which were based on information available at the time.[6]

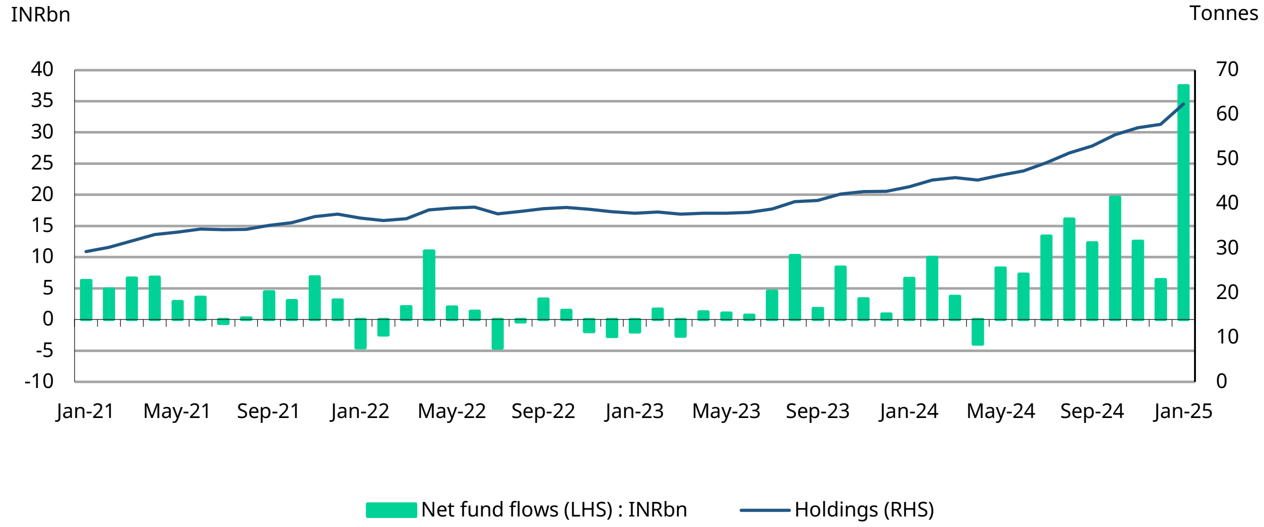
Anecdotal reports suggest that the strong inflows in January can be attributed to investors redirecting free cash flow towards gold ETFs for diversification amid ongoing global and domestic economic and policy uncertainty. The sustained weakness in the domestic equity markets has also been driving flows into gold ETFs, with investors pulling back from equities in favour of the safe-haven appeal of gold.

In February, a new product was launched, bringing the total number of gold ETFs in India to 19,[7] highlighting the strong momentum in this space.

3. HSN (Harmonized System of Nomenclature) code is a system used to classify goods in international trade and is accepted globally.
4. Domestic gold prices refer to the landed prices, which are the international prices adjusted for import taxes and exchange rate.
5. As of 14 February, 2025.
6. The daily AUM and NAV data published by AMFI covers 15 of the country's 18 gold ETFs.
7. As of 14 February, 2025.

Chart 2: Inflows soar

Monthly gold ETF fund flows in INRbn, and total holdings in tonnes*



*As of end January 2025.
Source: AMFI, ICRA Analytics, CMIE, World Gold Council

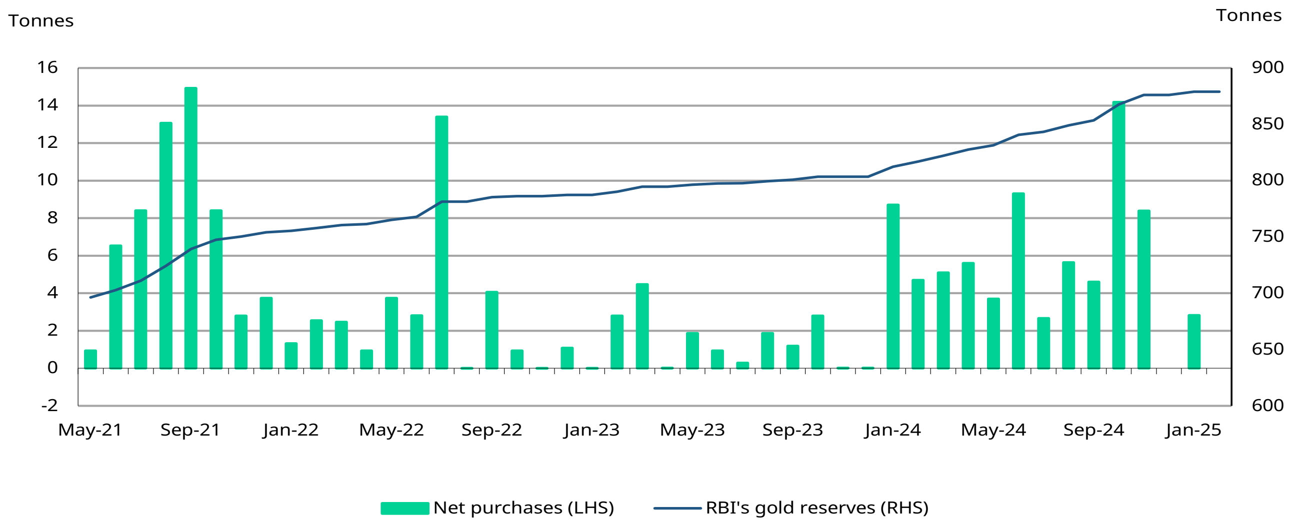
Gold buying resumes at the RBI after a brief pause

The RBI resumed its gold purchases in January, after pausing in December following 11 consecutive months of buying. The central bank added 2.8t of gold to its gold holding during the month, taking its total gold reserves to a new high of 879t. This renewed buying suggests that the RBI is likely to continue with its gold accumulation, following a significant purchase of 72.6t in 2024, making it the third largest buyer of gold among global central banks that year.

Not only is the RBI building its gold reserves, the share of gold in its forex reserves has been steadily climbing from 7.7% in January 2024 to 11.31% by early February 2025.[8] This increase reflects the RBI's efforts to diversify its forex reserves, alongside a decline in its holding of foreign currency assets (from 88.5% to 85.2%).

Chart 3: RBI's gold holdings rise

RBI's net purchases and reserves, in tonnes*



*Data as of 7 February 2025.
Source: RBI, World Gold Council

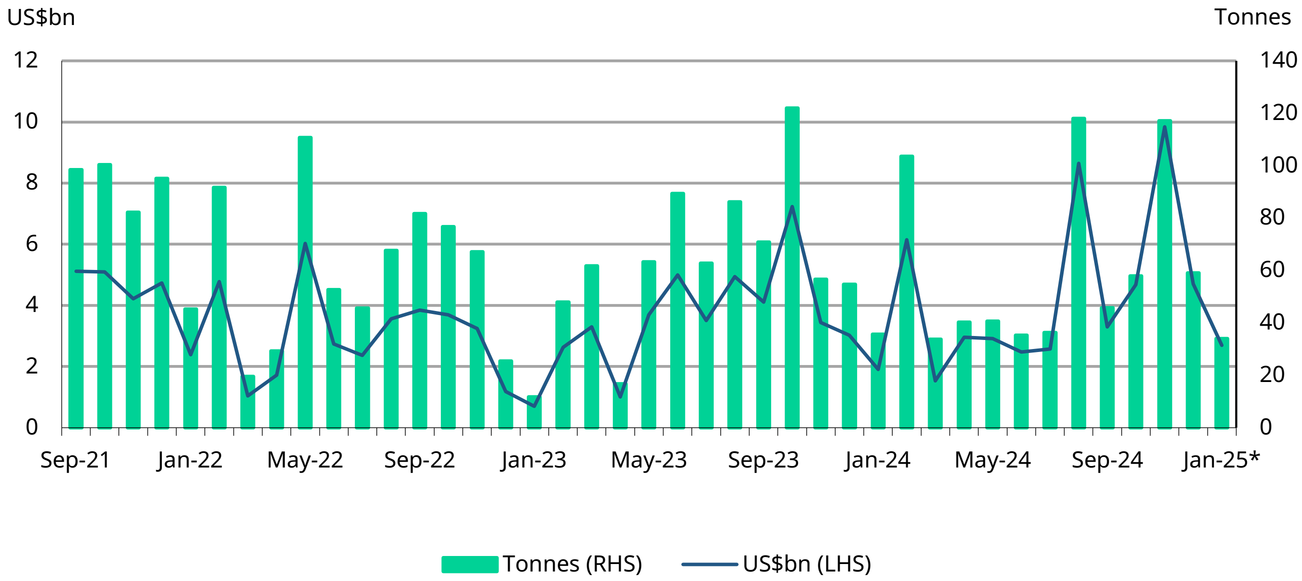
8. As of 7 February, 2025.

Gold imports slow in January

Gold imports in January saw a noteworthy drop owing to high prices leading the pull-back in demand. Anecdotal market reports suggest that manufacturers did not pick-up imports, reflecting the depressed demand environment. January's imports were the lowest since July 2024. According to Ministry of Commerce data, the gold import bill for the month totalled $2.68bn, a 43% decrease compared to December. However, it was approximately 40% higher than January of the previous year. We estimate that the volume of imports in January ranged between 30t-35t.

Chart 4: Gold imports cool from peak

Monthly gold imports in tonnes and US$bn*



*Includes World Gold Council estimates.

Source: Ministry of Commerce and Industry, CMIE, World Gold Council

World Gold Council

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We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

Author

Kavita Chacko
Research Head, India
World Gold Council